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SUBJECT: COUNCIL OF MINISTERS ISSUES REGULATIONS TO IMPROVE
BUDGET EXECUTION

¶1. (U) According to internal GOI memoranda, the Council of Ministers (CoM) agreed in a January 27 meeting to a package of reforms aimed at improving Iraq's capital budget execution performance. The new regulations stipulate formation of internal ministerial contracting committees (chaired by the head of each ministry/agency or designee) to review contracts. For the ministries of Defense, Interior, Oil, Trade, Health, Electricity, Industry and Minerals, Water Resources, and Municipalities and Public Works, the attendant internal contracting review committees are authorized to approve contracts worth up to USD 50 million (whereas the previous ceiling was USD 20 million for Defense, Oil, Electricity and Trade, and USD 10 million for the others). Other ministries not listed above may approve contracts worth up to USD 30 million (up from a previous ceiling of USD 10 million). The governorates are authorized to approve contracts worth up to USD 10 million (up from USD 5 million).

¶2. (U) The regulations also stipulate that heads of ministries and agencies not linked to a ministry may authorize a designee to approve contracts, but only contracts whose value do not exceed USD 5 million. For governorates, the threshold is USD 3 million. For contracts exceeding the aforementioned thresholds in para 1, the regulations outline the creation of a new "Central Contracts Committee" (to replace the former Contracts Committee) chaired by the State Minister for Council of Representatives Affairs (currently Dr. Safa al-Safi) and including representatives from the Ministries of Finance and Planning, Board of Supreme Audit, and the CoM Secretariat.

¶3. (U) Stemming from the same January 27 meeting, the CoM Secretariat also outlined a new procedure intended to

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simplify the process for opening letters of credit L/Cs Under the new guidelines, L/Cs worth less than USD 2 million will be transferred from the Trade Bank of Iraq (TBI) to private banks with reliable correspondent accounts for processing. According to the instructions, 72 percent of the number of L/Cs opened in 2007 fell under this criteria and comprised approximately 7.5 percent of the total value of L/Cs opened in 2007. Furthermore, L/Cs worth less than USD 2 million will no longer need to be processed by the Ministry of Finance. Instead, L/C applications fitting this criteria may be sent directly to the Central Bank of Iraq for processing provided that a copy of the contract is sent simultaneously to the Ministry of Finance for review. A new account (that will be replenished periodically) for the Ministry of Finance will be opened at the TBI with a minimum of USD 250 million expressly for L/Cs valued at under USD 2 million.

¶4. (U) For L/Cs worth more than USD 2 million, the CoM issued new procedures intended to streamline processing, including opening a "help desk" of sorts at the Ministry of Finance and mandating responses on L/C applications from the Ministry of Finance within 5 working days, after which approval from the

Ministry of Finance should be assumed. The new procedures as outlined attempt to reduce the amount of time required to open L/Cs to no more than two weeks.

Comment

15. (SBU) The efficacy of the proposed reforms will become apparent as they are implemented. While GOI attempts to improve budget execution are certainly welcome and should be encouraged, the underlying problem of an overall lack of capacity remains. Furthermore, although the L/C reforms state explicitly that approvals should be assumed if the Ministry of Finance does not respond within 5 working days, in practice we have rarely seen such implicit approvals to be taken at face value.

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